

MEMORANDUM

TO: Legislative Audit Committee Members

FROM: Jim Pellegrini, Deputy Legislative Auditor, Performance Audits

DATE: October 2001

RE: Follow-up Performance Audits
Audit and Compliance Bureau, Medicaid Third Party Liability
Quality Assurance Division, Department of Health and Human Services

INTRODUCTION

This memorandum describes the results of a follow-up review of the performance audits of the Audit and Compliance Bureau (99P-03) and the Medicaid Third Party Liability Program (98P-03). These reports, issued in December 1999, contained recommendations to strengthen quality assurance functions, re-evaluate where those functions should be performed, and additional controls needed to ensure the intended purpose is met.

Our objective for these audit follow-ups was to evaluate the implementation status of recommendations presented in the reports. To meet this objective, we reviewed agency documentation, interview department and federal personnel, and reviewed updated program requirements. The following sections outline our findings.

BACKGROUND

The Department of Public Health and Human Services (DPHHS) was created by the executive reorganization enacted during the 1995 Legislature. This reorganization consolidated related programs from the Departments of Social and Rehabilitation Services; Family Services; Health and Environmental Sciences; and Corrections and Human Services. DPHHS is the largest state agency, both in funding and FTE levels. Grant expenditures and client benefits account for approximately 75 percent of total department expenditures. To administer designated assistance and service programs, the department organized into nine divisions. One of these divisions, the Quality Assurance Division (QAD), was assigned primary responsibility for the administration of DPHHS' quality assurance functions. These two performance audits focused on operations within this division. QAD work is accomplished by 106 staff in three bureaus. The three bureaus include Licensure, Certification, and Audit and Compliance. Our reviews focused on Audit and Compliance Bureau operations. Functions in that bureau include:

The Surveillance and Utilization Review Subsystem (SURS) Unit conducts ongoing reviews to monitor the appropriate use of the Medicaid program by both recipients and providers. Their purpose is to preserve the integrity of the Medicaid program through overpayment recovery.

The Third Party Liability (TPL) Unit is responsible for estate recovery and cost avoidance recovery for Medicaid recipients. The goal of the unit is to reduce

Medicaid costs by identifying other insurers or parties responsible for paying a recipient's medical expenses.

The Program Compliance Unit samples Food Stamp and Medicaid recipients for compliance with eligibility rules. Unit duties include reviewing a sample of public assistance benefits to identify program errors that affect federal or state funding. Fraud and recovery duties, which include collecting monies resulting from client abuse of department programs, are also completed in this unit.

The Benchmarking/Performance Measurement Unit provides training and information about performance measurement procedures to DPHHS employees.

The Audit Unit provides financial/compliance audits and related services to divisions of the department. Program compliance reviews are also completed upon request from other divisions.

In addition to these functions, there is a division Fair Hearings Program to assure due process for adversely affected parties disputing facts and/or laws involving DPHHS administered programs. This office is responsible for providing fair, timely and impartial hearings and decisions for these programs. Staff in this program report directly to the QAD division administrator.

SUMMARY

The report for the Audit and Compliance Bureau contained thirteen recommendations, some with multiple parts, with a total of 18 suggested changes. The Third Party Liability report contained three recommendations. Overall we found limited steps have been taken to address these recommendations. The following charts summarize implementation status for each audit.

RECOMMENDATION STATUS

Audit and Compliance Bureau Performance Audit

Total Recommendations	18	(includes subparts)
Total Implemented	6	
Partially Implemented	6	
Not Implemented	6	

Medicaid Third Party Liability

Total Recommendations	3
Total Implemented	1
Total Not Implemented	2

Conclusion

Although limited steps have been taken at this time, department management has indicated changes are planned for these areas. There have been changes in personnel at the management level and the director has conducted independent reviews of operations. In addition, an internal audit manager has been hired to assist the director in reviewing internal controls and operations. This new position can assist in addressing the

recommendations that have not been implemented to date. We recommend obtaining a status update from the department in six months to determine final recommendation status.

RECOMMENDATION REVIEW

The following sections provide a synopsis of audit findings, audit recommendations, and a description of the implementation status for each recommendation.

AUDIT AND COMPLIANCE BUREAU PERFORMANCE AUDIT

The current Audit and Compliance Bureau was created during agency re-organization in 1995. This bureau was created by combining functions from various other department bureaus and programs. Additional fine-tuning and re-defining will be an on-going process as the department solidifies its organizational structure and assesses its quality assurance needs. It is the task of management to design and maintain an environment in which program resources are properly staff and directed to provide useful functions. This has not occurred in some of the Audit and Compliance Bureau functions. We believe the recommendations outlined in the report were the additional steps needed and without implementation in some key areas, there continue to be ongoing concerns. Additional FTE have been added in other divisions to address quality assurance needs not addressed by the bureau. There have been decreasing workloads in some bureau units and there is continued lack of management oversight for several bureau functions.

Recommendation #1

We recommend the department "re-visit" the role and purpose of the Audit and Compliance Bureau to determine the functions needed and establish methods for coordinating with other divisions.

Status

Not implemented. Although the department developed a working group and the division mission statement was re-worded, no actual changes in operations or efforts for coordinating with other divisions have been made.

Recommendation #2

We recommend the bureau re-allocate resources to more cost-effective alternatives by either:

- A) Eliminating functions no longer effective, or
- B) Providing those functions through contracted services.

Status

Partially implemented. Functions within SURS have been re-evaluated to determine cost effectiveness. However functions within the Audit Unit have not been re-evaluated and the need for the Benchmarking staff still has not been clearly defined. In addition, decreasing workloads in units such as Program Compliance have not been evaluated. Bureau management has not taken an active role in evaluating the cost effectiveness of some activities. As noted in the audit recommendation, this may require eliminating functions no longer effective or contracting for some services.

Recommendation #3

We recommend the bureau formalize SURS criteria for opening, prioritizing, and closing cases.

Status

Implemented. The SURS Unit has developed formal case management policies and procedures. In addition, a new case management database has been developed for tracking unit activities.

Recommendation #4

We recommend the bureau formalize SURS criteria for calculating, negotiating, and pursuing case settlement payments.

Status

Implemented. Policies and procedures have been developed formalized and ARMS have been updated. In addition, settlement criteria has been formalized.

Recommendation #5

We recommend the bureau formalize the SURS process for administrative review procedures.

Status

Implemented. ARMS have been updated. Fair hearings procedures have been changed and staff training has been provided in these areas.

Recommendation #6

We recommend the bureau strengthen the cost-effectiveness determination methodology used by the TPL Unit by:

- A) Requiring collection of medical history information.
- B) Updating annual average Medicaid costs.
- C) Using the proper components in calculations.

Status

- A) Partially implemented. Supervisor "e-mailed" staff suggesting medical history information be obtained as needed. No supervisory review has been completed to assure compliance. No formal policy developed.
- B) Partially implemented. Data was updated for the Fiscal Year 2000. No formal policy for updating on an annual basis.
- C) Implemented. Cost effectiveness worksheet developed incorporating other components.

Recommendation #7

We recommend the bureau develop a TPL staff policy and procedure manual for key components of their processes.

Status

Not implemented. Manual is not available. Supervisor indicates potential policy development in November of this year.

Recommendation #8

We recommend the bureau establish a system for tracking compliance of dropped cases in the Program Compliance Unit.

Status

Implemented. Formal procedures for notification and tracking cases have been developed.

Recommendation #9

We recommend the bureau formalize procedures for the Medicaid Eligibility Pilot Project in the Program Compliance Unit.

Status

Implemented. Procedures available for field staff.

Recommendation #10

We recommend the bureau more effectively utilize existing and new electronic management information systems.

Status

Partially implemented. New electronic systems are being put in place for use in the SURS and TPL units. Staff training has been provided. The two units are in the process of implementing the new systems.

Recommendation #11

We recommend the bureau develop formal controls for contracted services by:

- A) Establishing guidelines for entering into new contracts.
- B) Assigning contract monitoring responsibilities.

Status

Not implemented. Although centralized contract payment monitoring was assigned to the division fiscal officer, no division guidelines for monitoring contractor performance or for entering contracts was completed.

Recommendation #12

We recommend bureau management take steps to:

- A) Ensure supervisory staff are aware of their responsibilities.
- B) Assure compliance with department management policies.

Status

Not implemented. Although some supervisors are following department management policies, bureau management has not completed any performance appraisals of supervisory staff. As a result, some supervisors have taken steps to conduct their management responsibilities and others have not.

Recommendation #13

We recommend the department develop a role re-assignment strategy to assess staff skills, position changes, and training needs for proposed bureau changes.

Status

Not implemented. Not addressed in the department's follow up response or in audit recommendation work plan provided to the Legislative Audit Committee in March 2000.

MEDICAID THIRD PARTY LIABILITY

The Social Security Act requires State Medicaid agencies take all reasonable measures to obtain payment from liable third parties. It is the responsibility of participating Medicaid health care providers to recover charges for medical services from liable third parties before billing Medicaid. As noted earlier, Montana's third party function is housed within the Audit and Compliance Bureau. This program is responsible for:

- Monitoring the third party claims processing and recovery contract.
- Monitoring the lien and estate recovery contract.
- Operation of the Health Insurance Premium Payment program.
- Recovery of Medicaid dollars expended for accident related services.
- Operation of the Medicaid Buy-In program.

The audit report concentrated on the contractor's procedures associated with third party claims processing and recovery and the department's compliance with statute. We found limited changes have occurred to address our recommendations.

Recommendation #1

We recommend DPHHS establish policies to ensure compliance with statute requiring the recording of receivables and disposition of uncollectible revenue.

Status

Not implemented. No steps taken to date.

Recommendation #2

We recommend DPHHS:

- A) Require the contractor develop formal procedures to ensure second bills are sent out in a timely manner.
- B) Complete an analysis of the recovery of Medicaid dollars to determine if procedures used for recovery maximize collection efforts.

Status

- A) Implemented. Contractor procedures include sending second bill in 90 days.
- B) Not implemented. No analysis completed to date.